

Ms. Myria A. Polydorou, Vice President, Finance
Health Care Corporation
Post Office Box 5419
Spartanburg, South Carolina 29304

Re: AC# 3-LAN-J8 – Lancaster Convalescent Center, Inc.

Dear Ms. Polydorou:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1997 through September 30, 1998. That report was used to set the rate covering the contract periods beginning October 1, 1999.

We are recommending that the Department of Health and Human Services certify an accounts payable for amounts underpaid as a result of the rate changes shown on Exhibit A. You will be notified of settlement terms by that agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/sag

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Robert M. Kerr

Ms. Myria A. Polydorou, Vice President, Finance
Health Care Corporation
Post Office Box 5419
Spartanburg, South Carolina 29304

Re: Draft Report – AC# 3-LAN-J8 – Lancaster Convalescent Center, Inc.

Dear Ms. Polydorou:

The accompanying draft report has been prepared by our office. Please review the adjustments as presented.

If you have any questions concerning this report and would like a formal exit conference with the auditors, please write to me regarding the establishment of a meeting date. Your correspondence should include the above referenced control number. Your request for a conference must be made within ten (10) calendar days of your receipt of this report, and the conference must be held within twenty (20) calendar days of your receipt of this report. Any additional documentation in support of allowable cost must be received by our office no later than twenty (20) calendar days after your receipt of this report.

If we do not hear from you within ten (10) calendar days of your receipt of this report, we will assume you do not want an exit conference. In this case, I will reissue this report to you in final form and you will have thirty (30) calendar days in which to file a formal appeal if you so desire.

Yours very truly,

R. James McClam, CPA
Director of Federal Audits

RJM/sag

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Robert M. Kerr

Ms. Brenda L. Hyleman, Director
Division of Home Health and Nursing Home Services
Department of Health and Human Services
Post Office Box 8206
Columbia, South Carolina 29202-8206

Re: Draft Report – AC# 3-LAN-J8 – Lancaster Convalescent Center, Inc.

Dear Ms. Hyleman:

Please review the adjustments contained in the accompanying draft report. If you have any comments or disagreements with the adjustments and resulting computations, please contact me within ten (10) calendar days.

Use of the above referenced control number is requested on any subsequent correspondence pertaining to this report.

If you do not have any comments, it will be assumed you are in agreement with the report and only those concerns of the Provider, if any, will be considered prior to the issuance of the final report.

Yours very truly,

R. James McClam, CPA
Director of Federal Audits

RJM/sag

cc: Mr. Jeff Saxon
Mr. Robert M. Kerr

LANCASTER CONVALESCENT CENTER, INC.

LANCASTER, SOUTH CAROLINA

**CONTRACT PERIODS
BEGINNING OCTOBER 1, 1999
AC# 3-LAN-J8**

**REPORT ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

CONTENTS

	<u>EXHIBIT OR SCHEDULE</u>	<u>PAGE</u>
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES		1
COMPUTATION OF RATE CHANGE FOR THE CONTRACT PERIODS BEGINNING OCTOBER 1, 1999	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIODS BEGINNING OCTOBER 1, 1999	B	4
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 1998	C	5
ADJUSTMENT REPORT	1	7
COST OF CAPITAL REIMBURSEMENT ANALYSIS	2	10

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

March 1, 2000

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Lancaster Convalescent Center, Inc., for the contract periods beginning October 1, 1999, and for the twelve month cost report period ended September 30, 1998, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Lancaster Convalescent Center, Inc., to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Lancaster Convalescent Center, Inc., dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
March 1, 2000

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

Thomas L. Wagner, Jr., CPA
State Auditor

LANCASTER CONVALESCENT CENTER, INC.

Computation of Rate Change
For the Contract Periods
Beginning October 1, 1999
AC# 3-LAN-J8

	Beginning <u>10/01/99</u>
Adjusted reimbursement rate	\$89.70
Interim reimbursement rate (1)	<u>89.21</u>
Increase in reimbursement rate	\$ <u><u>.49</u></u>

(1) Interim reimbursement rate from the South Carolina Department of Health and Human Services Computation of Reimbursement Rate dated January 6, 2000

LANCASTER CONVALESCENT CENTER, INC.
Computation of Adjusted Reimbursement Rate
For the Contract Periods Beginning October 1, 1999
AC# 3-LAN-J8

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$41.56	\$47.33	
Dietary		9.47	9.69	
Laundry/Housekeeping/Maintenance		<u>7.56</u>	<u>8.24</u>	
Subtotal	<u>\$4.57</u>	58.59	65.26	\$58.59
Administration & Med. Records	<u>\$5.45</u>	<u>6.11</u>	<u>11.56</u>	<u>6.11</u>
Subtotal		64.70	<u>\$76.82</u>	64.70
<u>Costs Not Subject to Standards:</u>				
Utilities		2.37		2.37
Special Services		.51		.51
Medical Supplies & Oxygen		4.75		4.75
Taxes and Insurance		1.27		1.27
Legal Fees		<u>.01</u>		<u>.01</u>
TOTAL		<u>\$73.61</u>		73.61
Inflation Factor (3.00%)				2.21
Cost of Capital				9.82
Cost of Capital Limitation				(.07)
Profit Incentive (Max. 3.5% of Allowable Cost)				2.58
Cost Incentive				4.57
Effect of \$1.75 Cap on Cost/Profit Incentives				(5.40)
CNA Add-On				.75
Nurse Aid Staff Add-On				<u>1.63</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$89.70</u>

LANCASTER CONVALESCENT CENTER, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1998
AC# 3-LAN-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		Adjusted <u>Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$1,786,065	\$ 4,306 (2)	\$ 24,331 (2)	\$1,766,040
Dietary	402,286	-	-	402,286
Laundry	69,745	-	-	69,745
Housekeeping	151,746	481 (5)	764 (6)	151,463
Maintenance	100,169	8,293 (5)	8,477 (6)	99,985
Administration & Medical Records	250,690	9,335 (3) 4,177 (5)	4,681 (6)	259,521
Utilities	100,684	8,335 (5)	8,521 (6)	100,498
Special Services	21,478	-	-	21,478
Medical Supplies & Oxygen	201,952	-	-	201,952
Taxes & Insurance	65,623	2,655 (2) 5,202 (5)	15,000 (2) 4,392 (6)	54,088
Legal Fees	490	8 (5)	9 (6)	489
Cost of Capital	369,653	230 (1) 70 (4) 3,070 (5) 21,043 (7) <u>100,986 (10)</u>	406 (3) 1,893 (6) 2,056 (6) 4,754 (8) <u>115 (9)</u>	485,828
Subtotal	3,520,581	168,191	75,399	3,613,373

LANCASTER CONVALESCENT CENTER, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1998
AC# 3-LAN-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		Adjusted <u>Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Ancillary	35,075	-	-	35,075
Non-Allowable	358,925	30,793 (6) 4,754 (8) 115 (9)	230 (1) 8,929 (3) 29,566 (5) 21,043 (7) <u>100,986 (10)</u>	233,833
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Operating Expenses	<u>\$3,914,581</u>	<u>\$203,853</u>	<u>\$236,153</u>	<u>\$3,882,281</u>
Total Patient Days	<u>42,489</u>	<u>-</u>	<u>-</u>	<u>42,489</u>
Cost of Capital Patient Days	<u>42,489</u>	<u>6,960 (11)</u>	<u>-</u>	<u>49,449</u>
Total Beds	<u>120</u>			

LANCASTER CONVALESCENT CENTER, INC.
Adjustment Report
Cost Report Period Ended September 30, 1998
AC# 3-LAN-J8

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation - Building	\$ 99,227	
	Accumulated Depreciation - Equipment	1,300	
	Depreciation Expense - Equipment	230	
	Building		\$ 99,227
	Nonallowable		230
	Other Equity		1,300
	To remove non-certified capital cost State Plan, Attachment 4.19D HIM-15-1, Section 2102.3		
2	Deferred Start-Up Cost	39,331	
	Nursing	4,306	
	Taxes, Licenses, and Insurance	2,655	
	Deferred Start-Up Cost		6,961
	Nursing		24,331
	Taxes, Licenses, and Insurance		15,000
	To capitalize and amortize start-up cost HIM-15-1, Section 2132.1		
3	Administration	9,335	
	Cost of Capital - Income Offset		406
	Nonallowable		8,929
	To correct the allocation of home office cost HIM-15-1, Section 2150		
4	Fixed Assets	1,501	
	Depreciation Expense	70	
	Accumulated Depreciation		70
	Other Equity		1,501
	To adjust non-certified capital cost State Plan, Attachment 4.19D		

LANCASTER CONVALESCENT CENTER, INC.
Adjustment Report
Cost Report Period Ended September 30, 1998
AC# 3-LAN-J8

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Housekeeping	481	
	Maintenance	8,293	
	Administration	4,177	
	Utilities	8,335	
	Taxes, Licenses, and Insurance	5,202	
	Legal	8	
	Cost of Capital	3,070	
	Nonallowable		29,566
	To reverse DH&HS adjustment to remove indirect costs applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
6	Nonallowable	30,793	
	Housekeeping		764
	Maintenance		8,477
	Administration		4,681
	Utilities		8,521
	Taxes, Licenses, and Insurance		4,392
	Legal		9
	Cost of Capital-Addition		1,893
	Cost of Capital-Original		2,056
	To remove indirect costs applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
7	Fixed Assets	864,476	
	Depreciation Expense	21,043	
	Nonallowable		21,043
	Accumulated Depreciation		254,498
	Other Equity		609,978
	To record assets, accumulated depreciation, and depreciation expense for 22 beds certified 6/15/99 State Plan, Attachment 4.19D		

LANCASTER CONVALESCENT CENTER, INC.
Adjustment Report
Cost Report Period Ended September 30, 1998
AC# 3-LAN-J8

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
8	Nonallowable Cost of Capital	4,754	4,754
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
9	Nonallowable Cost of Capital	115	115
	To adjust amortization expense to comply with capital cost policy State Plan, Attachment 4.19D		
10	Cost of Capital Nonallowable	100,986	100,986
	To adjust capital return State Plan, Attachment 4.19D		
11	<u>Memo Adjustment</u> To increase days for cost of capital purposes by 6,960 due to beds certified on 6/15/99		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$1,209,688</u>	<u>\$1,209,688</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

LANCASTER CONVALESCENT CENTER, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1998
AC# 3-LAN-J8

	<u>Old Beds</u>	<u>New Beds</u>	
Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.2493</u>	<u>2.2493</u>	
Deemed Asset Value (Per Bed)	35,130	35,130	
Number of Beds	<u>110</u>	<u>32</u>	
Deemed Asset Value	3,864,300	1,124,160	
Improvements Since 1981	1,155,820	-	
Accumulated Depreciation at 9/30/98	<u>(1,073,058)</u>	<u>(50,943)</u>	
Deemed Depreciated Value	3,947,062	1,073,217	
Market Rate of Return	<u>.063</u>	<u>.063</u>	
Total Annual Return	248,665	67,613	
Number of Days in Period	<u>365/365</u>	<u>323/365</u>	
Adjusted Annual Return	248,665	59,833	
Return Applicable to Non-Reimbursable Cost Centers	(1,918)	(461)	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>1,239</u>	<u>1,347</u>	
Allowable Annual Return	247,986	60,719	
Depreciation Expense	127,154	52,518	
Amortization Expense	139	1,667	
Capital Related Income Offsets	(315)	(91)	
Allocation of Capital Expenses to Non-reimbursable Cost Centers	<u>(2,056)</u>	<u>(1,893)</u>	
Allowable Cost of Capital Expense	372,908	112,920	\$485,828
Total Patient Days (Actual Days)	<u>39,340</u>	<u>10,109</u>	<u>49,449</u>
Cost of Capital Per Diem	<u>\$ 9.48</u>	<u>\$ 11.17</u>	<u>\$ 9.82</u>

LANCASTER CONVALESCENT CENTER, INC.
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 1998
 AC# 3-LAN-J8

	<u>Old Beds</u>	<u>New Beds</u>
6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$5.39	N/A
Adjustment for Maximum Increase	\$ <u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	\$ <u>9.38</u>	\$ <u>11.17</u>
Reimbursable Cost of Capital Per Diem		\$9.75
Cost of Capital Per Diem		<u>9.82</u>
Cost of Capital Per Diem Limitation		\$ <u>(.07)</u>